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MEDIA ALERT

Utah Division of Securities identifies Top Ten Investment Scams for 2008 ***"Top Ten List reviews trends in 2007 securities fraud, offers 2008 predictions"***

SALT LAKE CITY, Utah – Francine A. Giani, Executive Director for the Utah Department of Commerce announced today that the Division of Securities has released a top ten list of investment scams predicted for 2008. The list details fraudulent activity tracked by the Division of Securities over the past year and offers predictions on which investment schemes to watch for in 2008.

"Securities scams can appear in many forms. It's important for Utah investors to educate themselves on what scams are out there to avoid becoming a target," said Francine A. Giani, Executive Director of the Utah Department of Commerce.

"During 2007, our Division filed enforcement actions in 63 cases. In these securities fraud cases, 727 investors lost over \$77 million dollars," said Wayne Klein, Director of the Division of Securities, "We urge investors to protect their money by checking out a promoter's background and any investment offer with our Division."

Utah Division of Securities Top Ten Investment scam predictions for 2008

1. **Real Estate Notes** The number one investment fraud in 2007 was selling promissory notes having a real estate theme. The sales pitches may vary, but all have a common theme: investors are told they can earn enormous profits from real estate and are led to believe their investments are secured by real estate. In 2007, promoters took money from Utah residents promising to buy raw land that would be developed into subdivisions, use investors' credit scores to buy homes, develop resort properties in Mexico, and make "hard-money" high-interest loans to real estate builders. In many cases, investors were persuaded to obtain second mortgages on their existing homes to obtain more money to invest. In none of these cases, was the investor listed as a lien holder on real estate. Most had characteristics of a Ponzi scheme, where money from new investors is used to make payments to prior investors.
2. **"Secret" Homeland Security Projects** Companies may falsely claim they need investor money to fund projects for the Homeland Security Department of the U.S. Government. The promoters tell the investors that the projects are top secret, so the promoters cannot show documents relating to the particular project or will provide false information about non-existent projects. This type of scam is so convincing because it builds on public information about the large amounts of money the government is

spending on homeland security and preys on investors' patriotism, in wanting to fund projects to improve the nation's security.

3. **Hedge Funds Run by Unlicensed or Unqualified Advisors** The large profits made by some hedge funds in recent years has attracted investors and created a rapid increase in the number of hedge funds. Because hedge funds and private equity funds engage in highly risky, speculative trading strategies, access is supposed to be limited to institutional investors and others who can afford the losses that might occur. Some hedge funds recently have been created in Utah to engage in these strategies and have accepted investors who cannot afford to lose their investments. The Division is investigating a locally-managed hedge fund that was sending its money to the Mediterranean island of Malta for investment but the hedge fund became a victim when the money disappeared in Malta. In other instances, the hedge funds do not have licensed investment advisers managing the funds.
4. **Unsuitable Options Trading Programs** A speculative options trading strategy caused the collapse of a \$46 million portfolio of Salt Lake-based Apex Equity Options Funds in August. The Division is investigating another Utah promoter who raised \$4 million from others to trade options, using a strategy he thought was safe. He failed to register the fund and he was not licensed. The fund has lost money and is in the process of liquidation. Economic and financial conditions in the U.S. have caused financial markets to swing wildly and made options investments especially risky. The Division also is concerned about citizens who have retired from their jobs and are using their retirement funds to invest in options, after taking courses that supposedly teach them how to trade options profitably.
5. **Letter of Credit Schemes and Advance Fee Schemes** There has been a revival of schemes where investors supposedly obtain rights to receive profits from foreign banking transactions. In October, the Division brought action against a Cedar Hills man and his company for taking \$130,000 based on promises that investors would get millions in funding from an unnamed European bank. For an upfront fee of \$15,000, investors were told they would get \$2.5 million. The Division alleged there was no European bank and the money was used for the promoter's personal expenses. Criminal charges were filed against a promoter of a second scheme who said the deposit of an advance fee would be backed by real estate and other assets, and double the investor's money.
6. **Free Meal Sales Seminars advertised as "Educational"** A yearlong study of free meal investment seminars by state securities regulators across the country highlighted the abusive tactics sometimes employed by seminar sponsors. Out of 110 supposedly "educational" seminars examined, 100% were actually sales presentations. Even if no products were sold at the seminars, attendees were contacted later and pitched investment products. Other study findings included:
 - 50% of the seminars featured exaggerated or misleading claims about the performance of products being offered.
 - 23% involved unsuitable recommendations, such as selling high risk investments (including subprime mortgage debt), pitching illiquid investments to investors who may need short-term access to their cash, or recommending products that have steep surrender fees, but pay high commissions to the salespersons.

- 13% of the seminars were completely fraudulent, involving misrepresentations of risk, sales of fictitious investments, and liquidation of customer accounts without their knowledge.

In the past year, the Division has suspended or revoked the licenses of two securities professionals for misrepresenting their credentials or selling products that were not suitable. Investors should ask themselves, "If the investments are so good, why does it take 'free' meals to sell them?" Investors also should beware of salespersons claiming credentials, such as 'certified senior advisor' that sound impressive, but require little training or skills.

7. **Fake Internet Sites that Solicit Investments** Some fraud promoters have hijacked government or other regulatory web sites by copying the information to a new Internet address under a new name. These hijacked sites encourage people to submit complaints about their investments. When investors submit complaints, the fake web sites solicit them to make other investment purchases. This practice, called "reloading," uses the victims' desire to get their money back and their trust in government to deceive them into trusting the information on the web site. One example of this was the International Brokers Association. Other sites ask investors in other countries to pay fees, called "share verification premiums," to verify ownership of shares in order to expedite their sale to American investors. One of these, the International Securities Accreditation Authority, claims to be based in Utah. The truth is that no legitimate regulator will ever claim to provide a valuation of shares or require the payment of a fee for the release of restricted shares.
8. **Oil and Gas, Mining Schemes** With the prices of oil, gas and other commodities at historic highs, the Division is seeing more oil and gas and mining schemes. Recent oil and gas cases include one where an investor gave \$30,000 for stock in an oil company, but the promoter never sent the money to the oil company. In February, Hydro-Clean Fuel Systems refunded \$87,000 to investors. Sedona Oil & Gas took money from investors without disclosing the disciplinary record of the company. Gold mining cases include a company raising money from investors saying it would open gold mines in Nevada and California. Investors were promised gold bullion valued at three times their investment. In another, investors were sold rights to gold to be produced from an Arizona mine based on promises they would double their money with no risk. A promoter from Brigham City is awaiting trial on charges he told investors their money would be used for a gold mine he owned. In December, Novus Technologies was accused of claiming it had a gold mining claim worth \$37 billion. Despite all this money invested, there was no oil or gold.
9. **"Phishing" for Information on Internet Stock Trading Accounts** Computers may be an investor's door to the world of online investing, but they also can provide openings for criminals to steal information and money. Investors with online securities accounts are targeted by criminals looking for ways to steal money from their online accounts. One common method is through "phishing," in which investors will receive e-mails that appear to be from their banks or brokerage firms which seek to trick recipients into disclosing sensitive information about their brokerage accounts, such as account numbers and passwords. Customers who respond soon find their accounts stripped of cash and the securities transferred to other accounts. Others become victims after accessing their accounts from computers at Internet cafes which have been rigged to record account information. The crooks later download account information used by the

customer and execute trades in the account. Customers need to carefully safeguard their account information and avoid accessing their accounts from public computers.

10. **Not Realizing that 36% Interest is “Too Good to be True”** When the interest rates paid by banks are 5% or less, any investment offering 10% or more is probably fraudulent. The Division is investigating many companies promising interest rates of 36%, 60%, and as high as 240% annually. The risk to investors is not eliminated if the promoter says the investment is guaranteed, has no risk, or is secured. Guarantees are only as good as the person making them. If the high-interest investment truly had no risk, the promoters would be borrowing the money from banks and keeping the profits, not sharing them with investors. Investors should not be fooled by Ponzi schemes that initially pay high rates to attract new investors. The money used to pay interest is coming from new investors. *High returns always equal high risk.*

The Four Factors that Increase the Chance of Losing Money to Investment Fraud are:

1. **Not recognizing who is most susceptible to fraud?** Surprisingly, the most likely victims of investment fraud are not elderly widows, but are married men with above-average intelligence who also are financially literate. Why do smart people become victims? It is because they think they are smart enough to distinguish the fraudulent offering from the legitimate one. Con artists know this and have become skilled at appearing legitimate.
2. **Trusting enablers** The phrase “trust me” is the single most effective tool for a con artist. Sometimes the phrase is stated explicitly; other times it is implied because the promoter and investor both belong to the same church, workplace, community group, or neighborhood. Trust is important in our lives, but should never be a substitute for checking someone’s background before making any investment.
3. **Being greedy** It is said that an effective con artist will never try to convince a skeptic; skilled crooks focus on persuading investors to believe what the investors already want to believe. The Division has noted that the higher the promised profits, the less effort investors will make to check it out – because the investors want to believe it is true.
4. **Not recognizing the red flags** Some statements always signal fraud. These include: “no risk,” “guaranteed,” and “double your money.” When a salesperson starts making excuses for why payments are late, it is a sign the money is already gone. If a stranger offers to help you get rich, you should question why the stranger is offering to help you. Anyone preying on your fears or urging you to act quickly is likely selling fraud.

What Can Investors Do to Protect Themselves? The risks of becoming a victim of investment fraud can be substantially reduced by asking three questions.

1. Is the person offering the investment licensed? Find out by calling the Division of Securities at (801) 530-6600. Anyone selling securities in Utah must be licensed.
2. Is the stock offering registered? All securities sold in the state must be registered or exempt. Call the Division of Securities to verify an offering is legitimate *before* you invest.
3. Did the promoter give a written prospectus summarizing the investment? Did you get a copy of financial statements showing how the company is doing? Did the promoter disclose his prior business track record and any criminal convictions or bankruptcies?

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